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McCloud Community Services District

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AGREEMENT

for Dedication of Water Rights

This Agreement (the "Agreement") is made and entered into as of this 9th day of February, 2001 between the *McCloud Community Services District*, a California Community Services District and political subdivision of the State of California (the "District") and *International Paper Company*, a New York corporation ("International Paper"), successor in interest by merger with Champion International Corporation, a New York corporation ("Champion"), each acting herein by and through their respective duly authorized officers.

RECITALS

A. On March 25, 1966, United States Plywood Corporation, a New York Corporation ("USPC"), the predecessor in interest to Champion and International Paper, entered into an agreement (the "USPC Agreement") with the District to transfer to the District, among other items, all water mains and distribution facilities owned by USPC and used by the District in connection with the furnishing of domestic and commercial water to the Town of McCloud, California ("McCloud").

B. The USPC Agreement dedicated for the District's use up to forty percent (40%) of the water derived from Elk Creek Springs and Squaw Creek Spring (collectively, the "Water Source") or such additional volume as the State Division of Real Estate or other governmental agency having regulatory authority over such matters may specify to meet the potential growth of the District, without cost to the District. The USPC Agreement further provided that the District would pay its proportionate share of the maintenance and improvements of the main diversion line from the Water Source to the point of delivery. Additionally, based upon the volume of water used by the District and that used by USPC, the District would pay its proportionate share of the expenses incurred in the maintenance of the main diversion line from the Water Source to the point of delivery and the costs of any future replacements.

District agreed to accept the donation and reaffirmed its commitment to deliver sixty percent (60%) of all available waters to Champion. Additionally, the Resolution indicated there would be no cost to Champion, or its successors in interest or assigns, for the water delivered to it pursuant to the USPC Agreement other than continued costs of future system maintenance and replacement.

D. On June 11, 1991, Champion conveyed to the District by Corporation Grant Deed (the "Deed") recorded under Document No. 91008162, in the Office of the County Recorder of Siskiyou County, California, all of Champion's right, title and interest in and to certain real property relating to the water delivery system, but reserving all water rights. Further, by Bill of Sale (the "Bill of Sale") also recorded under Document No. 91008162, Champion conveyed to the District all of its right, title and interest in and to the personal property associated with the water delivery system from the Water Source to the point of delivery, all as more particularly described in the Bill of Sale.

E. International Paper, as successor in interest by merger with Champion, now desires to avoid future liability or expense for repairs, maintenance and replacement costs associated with the water delivery system, which responsibility is imposed by the USPC Agreement. The District is willing to release International Paper of such responsibilities in exchange for International Paper's release and grant of all its right, title and interest, if any, in any water rights which may have been reserved by the USPC Agreement and the Deed.

AGREEMENT

Now therefore, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the District hereby agrees to accept a dedication of water rights as described below and thereby release International Paper from further obligations which it may have assumed by virtue of the USPC Agreement.

Dedication of Water Rights

1. Notwithstanding any provision to the contrary contained in either the Resolution, the Deed or Bill of Sale, International Paper hereby grants, dedicates to and transfers over to the District, without reservation, all of its water rights, water, springs, and the like, found in, on or under the real property more particularly described in the Deed (and described in Exhibit "A" attached hereto and incorporated herein by this reference) together with all licenses and permits for the water, and the like, affecting said property, and as of the date of this Agreement. Notwithstanding the USPC Agreement, International Paper reserves no right, title, interest, or authority to appropriate sixty percent (60%) of the volume of water from the Water Source, nor any amount thereof. The District, by its signature hereto accepts the foregoing described dedication and grant of water rights by International Paper.

Further Water Deliveries to International Paper

2. Any delivery of water to International Paper or its successors from the date of this Agreement shall be by contract with the District as a utility customer under terms and conditions acceptable to the District at the time of agreement, excepting Cal Cedar Properties, Inc., a California Corporation (current owner of the United States Plywood mill site), with whom the District has entered into a separate written agreement for the continued provision of water service to the Cal Cedar property.

Agreement to Cooperate

3. Notwithstanding anything contained herein to the contrary, International Paper does not warrant or guarantee to the District the sufficiency or nature of the water rights previously transferred or transferred pursuant to this Agreement or the USPC Agreement. If any adverse proceeding, claim, or challenge to the rights of the District in or to the water rights which are the subject of this Agreement is commenced to defeat or diminish such rights, International Paper agrees to cooperate reasonably with the District to defend such rights against third parties; provided however, that International Paper shall not be obligated to expend any attorney's fees or court costs as a part of such agreement to cooperate.

Repairs and Maintenance to the Distribution System

4. In consideration of the grant of water rights set forth in Paragraph 1 of this Agreement, the District acknowledges and agrees that International Paper and its successors and assigns shall have no further liability or obligation to maintain or pay any costs associated with the testing, inspection, maintenance or replacement of any portion of the water distribution system, including, without limitation, any portion of such system previously conveyed by International Paper to the District pursuant to the USPC Agreement, and whether such liability or obligation arose from use prior to the date hereof, or arises in the future.

Assignment and Recording

5. The terms and provisions of this Agreement shall be binding upon and inure to the benefit of the District and International Paper and their respective successors and assigns. The parties further agree that this Agreement, or a memorandum thereof, shall be recorded in the office of the County Recorder, Siskiyou County, California.

Modifications

6. This Agreement may not be modified except by written instrument executed by the parties hereto and recorded in the Office of the County Recorder of Siskiyou County, California. Except as herein amended and modified, the terms, conditions and covenants set forth in the USPC Agreement, the Deed and the Bill of Sale are ratified and confirmed by the parties hereto and shall continue in full force and effect. Further, except as otherwise expressly stated herein, nothing herein shall constitute a waiver by either party hereto of any of their rights under the USPC Agreement, the Deed, or the Bill of Sale and nothing herein shall constitute a waiver or continuing waiver by either party of any other provision, covenant, warranty or representation contained in the USPC Agreement, the Deed or the Bill of Sale.

Governing Law

7. This Agreement shall be construed in accordance with the laws of the State of California. The parties hereto acknowledge that they and their respective legal counsel have had an opportunity to review and revise this Agreement and that the normal rules of construction shall apply so that ambiguities herein are not to be resolved against the drafting party in the interpretation of this Agreement.

Enforcement

8. This Agreement may be enforced by suit in law or equity by either of the parties hereto or their respective successors or assigns. In the event of a breach of any of the provisions hereof by either party hereto, the other party shall be entitled to recover damages in an action at law and/or such equitable relief, including, without limitation, specific

performance of the terms and provisions of this Agreement. The rights and remedies granted herein to the parties hereto in the event of a breach of any of the provisions hereof are cumulative, and the exercise of such rights and the pursuit of such remedies shall be without prejudice to the enforcement of any other right or remedy authorized by law or this Agreement.

Attorney's Fees

9. If any legal action is brought by either of the parties hereto for breach hereof or to enforce the terms hereof or otherwise, it is expressly agreed that the prevailing party in such action shall be entitled to recover from the other its party reasonable attorney's fees in addition to any other relief that may be awarded.

This Agreement is executed as of the day and year set forth above. This Agreement may be executed in counterparts, and when such counterparts are attached, shall be considered an original for all purposes.

Dated: MAR 3 0 2001

McCloud Community Services District

By: _____

President, Board of Directors

Attest:

_____
Beth Steele, District Secretary

Dated: 2/9/01

International Paper Company

By: _____

David E. ~~Leiser~~ Lieser

Attorney in Fact

Notarial Acknowledgments Required

State of Maine

County of Kennebec

On this 9th day of February, 2001, David E. Lieser personally appeared before me, who is personally known to me, and signed his name to the above document and that it is his signature.

_____

JANET V. GOULD
NOTARY PUBLIC, MAINE
MY COMMISSION EXPIRES MARCH 29, 2005

Notary Public

publish. This effort is followed by four weeks of public review. Following the public review period, it usually takes three weeks to respond to comments before the District could take action on the project. Overall, a safe planning estimate would be 16–18 weeks from notice to proceed until the ability to take action on the IS/MND.

4.1 Land ownership

MCSD must show site control of the hydroelectric facility and associated area for the California Energy Commission renewable generator designation. Site control can be accomplished through fee simple ownership or permanent easement with hydropower rights explicitly expressed in the easement language. For Site 1, we assume the site is under easement from the USFS through a special use permit. For Site 2, we recommend obtaining fee simple ownership of the site. Discussions with MCSD staff indicate one acre could be procured at a cost of $3,000 to $5,000, which has been included into the project cost estimates.

4.2 Water rights

The District possesses pre-1914 consumptive water rights for both flows emanating from Intake, Lower and Upper Elk Springs. The existing water right may require the addition of hydropower generation language in order to comply with renewable generator designations.

4.3 Local permits

California Government Code Section 53091 [5] exempts public agencies from local county and/or city permits, encroachment permits, air quality permits, storm water pollution prevention plans, and construction easements.

5. Interconnection

An interconnection to Pacific Power's distribution grid is required in order to export power. [6] The PacifiCorp interconnection process for QFs takes about a year to go through. The interconnection study process takes approximately six months and costs between $35,000 and $50,000. Appendix 2 provides a detailed overview of the interconnection steps. Table 9 illustrates the processing time, deposit fee and total cost by study step.

Table 9: PacifiCorp Interconnection Study Costs

MCSD Intake Spring - PacifiCorp Interconnection Study Costs			
	Feasibility Assessment	System Impact Study	Facility Study
Processing Time	30 business days	45 business days	45 business days
Study Deposit	$1,000	$15,000	$25,000
Total Study Cost Estimate	$5,000-10,000	$10,000 - 15,000	$20,000-$25,000

We have requested and received a Pre-Interconnection Report from PacifiCorp that is labeled as Appendix 3. This report provides an indication if the utility will require any upgrades to their system to accommodate accepting the generation produced by these hydro units. The report shows that there is plenty of line circuit and substation capacity available that would accept power generated by this unit. Note that ~4,500 linear feet of new 12-kilovolt (kV) wire will be required to interconnect Site 1 in addition to required interconnection equipment such as a transformer, ground bank, capacitors and recloser. Site 2 is located with close proximity to two 12-kV circuits that would require minimal utility line changes in order to interconnect.

6. Project Description

This section provides a description of the powerhouse site options and how they interface with the existing infrastructure.

6.1 Siting options

6.1.1 Site 1

This site is located at the existing pressure relief structure approximately 380 lf north of the 1.2 MG storage tank. A drawback to this site is that it is not located close to three-phase power. Approximately 4,500 linear of new 12-kV electric service would need to be constructed, adding significant cost to the project. The footprint of this powerhouse would be approximately 18 feet by 18 feet with 10 feet or 12 feet sidewalls. The structure would be made from pre-cast concrete and the foundation and flow control structure would be poured- in-place concrete. This site would need to be raised to provide enough hydraulic grade to allow water back into the 14-inch pipe after it discharges the powerhouse. The

flow control structure would be designed to dissipate the energy of water during load rejection (loss of utility power) events. The powerhouse would not include a crane, as with tall side walls it is assumed a mobile crane can be used for removing large equipment.

Flows to the Site 1 powerhouse would be controlled through a 10-inch blow-off valve located at the Intake Spring head works allowing for consistent flows through the turbine. Flows in excess of the turbine capacity will be routed to Squaw Creek at the head works. Near the existing pressure relief and metering vault, flows will be diverted off the high-pressure side of the Intake Spring pipeline through a "Y" just downstream of the existing pressure relief vault. A Pelton turbine will utilize the flow and pressure to generate mechanical energy to power the electric generator. The turbine will take all the energy available and reduce the pressure to atmospheric pressure. The water will exit the turbine downward into a chamber in the floor of the powerhouse and flow by gravity into the flow control structure. The flow will then re-enter the Intake spring pipeline at low pressure to be routed to the covered 1.2 MG tank or diverted to the 24-inch pipeline that dumps into Squaw Creek

Water flow entering the Pelton turbine is controlled through nozzles (needle nozzles) that constrict the flow before it hits the runner. For this application, a single-nozzle machine is proposed. As flow requirements and resulting head conditions change, the flow through the nozzle is changed to compensate. An induction generator operating at constant speed will be used. Electronic controls will increase or decrease load to the generator in coordination with the flow control nozzle to ensure constant speed of the generator.

If load rejection occurs (loss of electrical power to the grid), the nozzle jet is deflected away from the runner in order to minimize runaway speed while the turbine control valve slowly closes. This valve closure will be communicated to the existing pressure relief valve, which will be plumbed into the downstream 14-inch pipeline, so they will act in concert to minimize pressure surge. Surge pressure analysis will be conducted during detailed design to make sure transient pressures are minimized.

6.1.2 Site 2

This site is located adjacent to the 1 MG concrete pond, located north of the Old Mill / Nestle property. The design of this powerhouse would be identical to that of Site 1 with the exception that the powerhouse would not need to be elevated, and transient pressure controls would need to be included in the design. The

powerhouse would discharge directly into the 1 MG pond that would dump into Squaw Creek. This location is sited near existing three-phase power, so the interconnection costs would be less than Site 1. However, the construction of a new 16-inch high-pressure pipeline to replace the historic wooden pipe will add significant cost to this alternative, but also provide additional generation and revenue when compared to Site 1. These costs have been incorporated into the project cost estimates.

6.2 Geotechnical

During the design phase, a geotechnical investigation should be completed at the selected site to determine soil composition and analysis, compaction and other reports to drive the final design of the powerhouse and associated facilities.

6.3 Estimated project costs

These estimated project costs are considered preliminary based on a number of factors that need to be verified during subsequence design phases. We have included a 15-percent contingency to this estimate. The estimated cost for the project at Site 1 is $2,534,000 and Site 2 is $3,020,000. Detailed project cost estimates are contained in Appendix 4.

Table 10: Project cost estimate summary

MCSD Intake Spring - Project Cost Estimate (Summary)		
Description	**Site 1**	**Site 2**
Construction		
Mobilization and Site Work	$ 128,220	$ 105,870
Pipe, Valves, and Fittings	$ 42,900	$ 831,200
Turbine / Generator System	$ 452,688	$ 487,160
Electrical & Interconnection	$ 810,000	$ 450,000
Powerhouse Building and Misc. Structural	$ 209,960	$ 187,460
Materials and installation subtotal	**$ 1,643,800**	**$ 2,061,700**
15% contingency	$ 246,600	$ 309,300
Construction costs subtotal	**$ 1,890,400**	**$ 2,371,000**
Non-Construction		
Pre-Design	$ 15,000	$ 20,000
Engineering	$ 453,700	$ 453,700
Interconnection	$ 85,000	$ 85,000
Environmental and Regulatory	$ 55,000	$ 55,000
Additional Services	$ 35,000	$ 35,000
Non-construction costs subtotal	**$ 643,700**	**$ 648,700**
Total Estimated Project Costs	**$ 2,534,000**	**$ 3,020,000**

7. Financial analysis

7.1 Financial summary

Based on inputs related to generation, revenue, project costs and other factors, we compiled a financial summary detailed in Table 11. NLine Energy used the financial assumptions provided in Table 12 for the pro forma.

Table 11: Financial summary

MCSD Intake Spring - Executive Summary		
	Site 1 (PRV)	Site 2 (1 MG Pond)
Available Turbine Head	805 to 950 ft	915 to 1080 ft
Available Turbine Flow	4 - 7 cfs	4 - 7 cfs
Hydrostation Capacity	390 kW	440 kW
Estimated Annual Generation	2,509,000 kWh	2,924,000 kWh
Estimated Annual Year 1 Revenue	$123,000	$144,000
Estimated Project Costs	$2,534,000	$3,020,000
Annual O & M Costs	$10,000	$10,000
40-year Gross Savings	$3,931,000	$4,588,000
30-year Gross Savings	$1,176,000	$1,339,000
30-year NPV	$477,000	$535,000
Simple Payback (years)	22.4	22.5
Year 1 Cash Flow	($17,000)	($22,000)

7.2 Financial overview

Overall, both Sites 1 and 2 have marginally positive financial attributes. It is important to take both a short-term and long-term view of the project. The useful life of the Pelton turbine is 50 to 100 years based on other operational units in California, but in an effort to be conservative we evaluated the financial attributes on a 30 to 40-year timeframe. Based on current financing terms for municipal projects, we have assumed a three percent interest rate with a 30-year term. This specific financing package and length of term is beneficial as it provides for positive annual cash flow within the first five years of operating. A detailed pro forma worksheet for both sites has been provided in the pro forma section that illustrates the expected annual cash flow for the project.